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COMMITTEE ON EDUCATION

February 6, 2006

LB 890, 1006, 803, 1118, 1138, 961

The Committee on Education met at 1:30 p.m. on Monday, February 6, 2006, in Room 1525 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB 890, LB 1006, LB 803, LB 1118, LB 1138, and LB 961. Senators present: Ron Raikes; Chairperson; Patrick Bourne; Gwen Howard; Gail Kopplin; Vickie McDonald; Ed Schrock; and Elaine Stuhr. Senators absent: Dennis Byars, Vice Chairperson.

SENATOR RAIKES: Good afternoon and welcome to this hearing of the Education Committee of the Nebraska Legislature. We're pleased to have you here today. We'll, hopefully, soon get a few more of our committee members present. They're probably working their way...oh, here comes one right now. We have a rather full schedule today. We're going to begin with two confirmation hearings, both for the Coordinating Commission for Postsecondary Education and then we move to hearing six bills. They're posted on the outside of the hearing room and we'll hear them in that order. I would call your attention to one slight change in practice in that LBs 1118 and 1138 introduced by Senator Heidemann will be heard together. That is, he will introduce both of them and then we'll receive testimony on both bills before we move on to the last one. So, with that, let me begin by introducing our committee. To my far right, Senator Pat Bourne from Omaha; Senator Gail Kopplin, Gretna; Senator Elaine Stuhr soon will be here, she's from Bradshaw. There she is. Tammy Barry, our committee's legal counsel. I'm Ron Raikes, District 25. Senator Dennis Byars is our committee's vice chair, and I think Senator Byars is out of town today so probably won't be here. Senator Vickie McDonald from St. Paul I think will be here today. We have Senator Gwen Howard from Omaha, and Senator Ed Schrock from Elm Creek. He will be here shortly, I think, as well. And, finally, Kris Valentin, our committee clerk. As you come to testify, why please fill out one of the little forms and throw it in the box there. Say your name and then spell it for us before you begin your testimony. We'll start out with an introduction by the introducer, followed by proponent, opponent, neutral testimony and then a close, if desired. We will limit the testimony to three minutes, so please be warned and we'd appreciate if you could honor that, make the best use of your time. Cell phones, please

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disable your cell phones however you see fit. Other than that, I think we're ready to go, and our first item of business will be confirmation hearing for Dick Davis to the Coordinating Commission for Postsecondary Education, so Dick, if you would come forward. Welcome, Dick.

CONFIRMATION HEARING ON
DICK DAVIS TO THE
COORDINATING COMMISSION FOR POSTSECONDARY EDUCATION

DICK DAVIS: Good afternoon.

SENATOR RAIKES: This is a re-app.

DICK DAVIS: Yes, it is.

SENATOR RAIKES: How long have you been a member?

DICK DAVIS: Since its constitutional implementation, 1991.

SENATOR RAIKES: Okay. Well, you can give us all a history lesson and tell us a little bit about yourself, the things you feel you've gotten accomplished on this group, and why you want to continue.

DICK DAVIS: (Exhibit 1) Thank you. I guess I'm supposed to officially say, Dick Davis...Dick is D-i-c-k Davis, D-a-v-i-s. I'm from Omaha, Nebraska.

SENATOR RAIKES: Thank you.

DICK DAVIS: The commission has been a wonderful experience for me. It has really satisfied my community commitment in lieu of being elected. I think you folks' jobs are enormously difficult, and this job has the ability to really work in a great fashion for education. And I have been and will continue to be an advocate for education. If you've not read any of my information, but I was a North High School graduate, went to the University of Nebraska in Lincoln, played football there. I went on to play pro football and on off-season I was an art teacher for a couple of years, was able to go to North High School, my school I graduated from, about six years later, as assistant principal at age 24. And then at age 30, I became the

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principal at McMillan Junior High School. So, it's only been ten years of my career, but it was the most challenging of all the careers that I've had but, very frankly, the most rewarding. And so, that's the same approach I bring to the commission. We've done, I think, some very good things in trying to squeeze the politics out of the educational process. I've been on the Budget Committee for all of my time and very proud of the fact that you've been able to see some of that work in the prioritization of construction projects using predetermined criteria, trying to make sure that health and safety is the most important, and you're able to see that in terms of our recommendations. There have been a variety of tough decisions we've made over the years and we've been very proud of those because, very frankly, we're an advocate of the people and, as you talk about the various disputes between institutions and private versus public or among the publics, if you continue to focus on the people and the needs of the folks to be as highly educated as they can, I think that's been our greatest result.

SENATOR RAIKES: Okay, thank you very much, Dick. Questions for Dick? Did you watch the game yesterday?

DICK DAVIS: Yes, I did.

SENATOR RAIKES: As a Seattle fan, there were some bad calls there (laughter).

DICK DAVIS: Yes, Senator (laugh).

SENATOR RAIKES: As you look ahead in the immediate future, what do you see as the most difficult issue the commission needs to deal with?

DICK DAVIS: Well, I believe it's always...has been and continues to be the funding for public education. There continues to be less and less funding for education so, therefore, you really have to look at what programs are on the books now, what programs need to be in the future, making sure that there's not a whole bunch of duplications of those services, but you've got to do that in terms of the tax dollars. And on the other hand of that, you also have got to basically identify the needs. You know, as you know, we're going downward in terms of graduation from the state

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colleges, universities, and what happens is the fact that we need to make sure that we bring more of our young people into the postsecondary education area. And you're able to see that that will not happen unless we work aggressively at that. So, you've got one hand, the funding issue that is a restraint and you have, on the other hand, you need to make sure that you provide the needs for the up and coming leaders of our communities.

SENATOR RAIKES: The Coordinating Commission is our primary agent, so to speak, in dealing with need-based aid. Give us an assessment of that.

DICK DAVIS: You've done a remarkable job during the commission's constitutional tenure. I believe when I first came on the commission, there was approximately a million-and-a-half or so need-based aid. That's up into around the \$8 million kind of level right now. That's been very, very good. A couple of years ago, we continue to try to improve that as we continue to go forward and forward. A couple of years ago, we had a bump in the road. We're right now trying to put the million-and-a-quarter that we lost a year ago to reimplement that because that gap is getting wider and wider. For those kids who qualify to go to school, that are still poor and can't go to school, that gap continues to be wider and wider, and that basically does not bode well for Nebraska. And so where we were earlier on, I think we were in the lower quartile of need-based aid in relationship with the states and we've not done as well even with the states around us. But if you continue to add the additional dollars that you're adding this year, I think we might be back in the 25-or-so rank position compared to the 30-some odd ranked position in the past. So we're improving, but the problem is, is that we're not really keeping up with the other states that have been very aggressive in this area.

SENATOR RAIKES: Okay. Senator Bourne.

SENATOR BOURNE: Mr. Davis, which state does the need-based aid well? Which state is the model?

DICK DAVIS: I believe, if I can recall, places like Minnesota and New York are pretty strong in terms of their...from my memory, pretty strong in terms of their

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need-aid support. But, very frankly, every state around us does a better job, you know, than we do. And even if we would basically be in the middle of that combination, would bode well. So that's the answer.

SENATOR BOURNE: Thank you.

SENATOR RAIKES: Senator Howard.

SENATOR HOWARD: Sir, I see that you're on the board of TeamMates...

DICK DAVIS: Yes.

SENATOR HOWARD: ...of Nebraska. Are you also a mentor?

DICK DAVIS: I am not a mentor, but I am a mentor. If you sort of look at the resume, I do a lot of things in terms of helping folks. An example would be the Davis-Chambers Scholarship, you know, and there's some very impressive results that we do with that. I'm with the North Omaha Foundation and we do some nice things with that as well from a mentoring standpoint. But then I also recruit my daughter to basically, if I can't do it, one of the family members can.

SENATOR HOWARD: Keep them all busy, that's good.

DICK DAVIS: Yeah, we're fifth generation. My granddaughter is a fifth generation Nebraskan and I'm the third generation, and I think Nebraska is a good place. And I think it's incumbent upon all of our family to pitch in as best we can to keep it as good a place as we can.

SENATOR HOWARD: Well, I'd certainly agree with that. Thank you.

SENATOR SCHROCK: Good to see you, Dick.

DICK DAVIS: Yeah.

SENATOR RAIKES: Okay. I see no other questions. Thank you very much for your willingness to continue your service, Dick.

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DICK DAVIS: Alrightee.

SENATOR RAIKES: Much appreciated.

DICK DAVIS: Very good. Bye-bye.

SENATOR RAIKES: Thank you. Is there proponent testimony? Opponent testimony? Neutral testimony? That will close the hearing, the confirmation hearing for Dick Davis and we'll turn to the confirmation hearing for James Strand. Is James here?

CARNA PFEIL: (Off mic) He was supposed to be here, but we haven't heard from him so we may have to reschedule (inaudible).

SENATOR RAIKES: Okay. Maybe then what we'll do, if it's okay with you, is that we'll move to the regular agenda, and if he does show up or you hear from him before we've adjourned for the day, maybe we can take it up then.

CARNA PFEIL: (Off mic) I'll see if I can track him down.

SENATOR RAIKES: Okay.

DICK DAVIS: Do you want me to do his too? (laughter)

SENATOR RAIKES: No, no, we've heard enough from you, Dick (laughter). Thank you. Okay, so let's postpone, at least for the moment, the hearing for James Strand and we'll move to LB 890 and Senator Ray Janssen. Welcome, Senator.

LB 890

SENATOR JANSSEN: Senator Raikes, members of the Education Committee, for the record, my name is Ray Janssen representing the 15th Legislative District, the "Pathfinder" district. I have a simple, little bill here for you this afternoon that I'm sure you'll all just love. The number of the bill is 890. This bill would assist school districts in dealing with the increasing health insurance costs as well as energy costs. The Department of Education could allow school districts to exceed its allowable growth rate for any one year during the increase in either energy or healthcare

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insurance that exceeds the increase in the Consumer Price Index. I believe that it's pretty simple. That's all it does. I believe that there are people here to testify after me and who can further explain to a greater extent how they have been impacted by the increase in expenses that they have no control over. With that, I'll try and answer any questions that you might have.

SENATOR RAIKES: Okay, thank you, Senator. Questions for Ray? Senator Stuhr, sorry.

SENATOR STUHR: Yes, Senator Janssen, probably in the energy costs, would you say probably transportation is probably the more critical need than, since we've had such a wonderful winter, that energy?

SENATOR JANSSEN: Well, you know, energy can mean a lot of different things. Transportation, yes. And heating and cooling of school buildings, you know. We keep getting larger buildings all the time so we can be more efficient and a lot of schools have different types of heating situations that they use in schools. And most generally, they are as cost efficient as they can get when they build that particular school, of course. There are sometimes if the districts don't want to keep up with the times and they keep remodeling an old, existing building, their heat costs and cooling costs are terrific. I'm not saying that new structures are so, but they're a lot better adapted to the efficiency than the older buildings were. You know, well, when you and I went to school you could throw a cat through some of those walls. Well, it hasn't...you know, they say that some of those buildings haven't changed any. Elaine, you know what I'm talking about.

SENATOR STUHR: I know what you're talking about (laugh).

SENATOR JANSSEN: Sure. You know, the snow used to drift in the windows and you had a long walk to the outhouse (laughter), and it was uphill both ways (laughter).

SENATOR STUHR: Ray, I think you better just stop (laughter).

SENATOR JANSSEN: Well, you asked the question, Senator Stuhr. I'm just answering you (laughter).

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SENATOR RAIKES: Senator Schrock.

SENATOR SCHROCK: Been there, done that only we used corncobs (laughter).

SENATOR RAIKES: Gee (laugh), okay, I'm going to call a halt to this right now (laughter).

SENATOR JANSSEN: Oh, by the way, Senator, I'll waive closing. I have to get back over to the...

SENATOR RAIKES: Okay, all right, that much is appreciated.

SENATOR JANSSEN: I'd love to answer some more questions, though, if you had any more.

SENATOR RAIKES: (Laugh) I hope there are none. There aren't, okay. Thank you very much, Senator, appreciate it.

SENATOR JANSSEN: Thank you.

SENATOR RAIKES: Okay, we'll move to proponent testimony, LB 890. Herb.

HERB SCHIMEK: (Exhibit 2) Senator Raikes, members of the committee, my name is Herb Schimek, H-e-r-b S-c-h-i-m-e-k. I represent the Nebraska State Education Association. I want to thank Senator Janssen for introducing this bill, which is probably quite familiar to Senator Raikes since it has been in front of the Revenue Committee, and we were lucky enough to get it in front of the Education Committee this time.

SENATOR RAIKES: What happened to it in the Revenue Committee there?

HERB SCHIMEK: Does anything ever pass out of that committee? Basically, this bill represents reality as we see it today. You have in front of you a story in our paper about a teacher who this last year got a \$16 raise. The health insurance increases and the other raises for energy in the school district made it almost impossible to give raises. Now, we're basically saying that outside of the CPI, there should be an exception for these two things for

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one year granted by the state Department of Education. You have to come before the state board to justify with facts and figures why you needed this, and they could grant it for one year. Basically, what you see in front of you is what the bill is. We would like to plead that this bill at least get out of committee and be discussed on the floor. It seems as though we're always talking about increasing state aid, but what we're really talking about is decreasing property taxes. And it might be nice to have something that would actually increase education.

SENATOR RAIKES: Okay, thank you, Herb. Questions? You're not asking here for a change in the levy lid, just the budget lid.

HERB SCHIMEK: Right.

SENATOR RAIKES: And there is a vehicle now available through an interlocal agreement, in other words, let me put it this way. If, for example, energy costs were the subject of an interlocal agreement, then they would be exempt from the budget lid.

HERB SCHIMEK: Right. And we're talking about primarily a lot of rural districts that have an awful lot of busses, and we haven't seen too many interlocal agreements that talk about gasoline in that sense.

SENATOR RAIKES: Okay. All right, any other questions? Thank you, Herb.

HERB SCHIMEK: Thank you very much.

SENATOR RAIKES: Next proponent, LB 890?

BRIAN HALE: Senator Raikes, members of the committee, my name is Brian Hale, H-a-l-e, representing the Nebraska Association of School Boards. Our delegate assembly this year passed a resolution asking for some relief for these sorts of expenses. Year over year, obviously, the health insurance issue is a big one, really double-digit increases are not unusual and that's not unique to the school industry. But certainly in a plan statewide which probably approaches \$200 million a year for health insurance benefits for our employees; that becomes a pretty decent chunk out of

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whatever formulaic increase schools receive. And then just the volatility of the energy market is such that at various points. We were looking at \$3 a gallon gasoline, and I'm sure you all have personal experiences with your home heating bills going up at a pretty high rate and schools, obviously, with larger buildings and facilities throughout the state suffer from those sorts of consequences as well. So, I'd like to urge you to be supportive of this bill at this time.

SENATOR RAIKES: Thank you, Brian. Questions of Brian? Don't see any, thank you.

MIKE DULANEY: Senator Raikes, members of the committee, my name is Mike Dulaney, D-u-l-a-n-e-y, and I'm representing the Nebraska Council of School Administrators, and we, too, support this bill and urge your careful consideration. I sit as a member of the Educators Health Alliance Board, that's the EHA, and we joined the NSEA and the School Board Association as a part of this organization providing the health insurance plan for most of the school employees across the state. Last year we had almost, we fought very hard to try to modify the system or the health plan enough to keep it below double-digit. This year, as hard as we try, it doesn't look like we're going to make it. We're going to be double-digit. The trend is certainly in double-digit year after year, and so this is just going to be a continuing problem, health insurance, and, of course, the energy costs also are very much a concern. So we would encourage your careful evaluation of the bill and look forward to working with you on it as the session goes by. Thank you.

SENATOR RAIKES: Thank you. Any questions? To what extent, Mike, are interlocal agreements used by school districts to do either transportation or heating or health insurance for that matter?

MIKE DULANEY: Right. I think they are using creative means wherever possible, particularly as it relates to energy and we worked with Senator Schimek over this interim on interlocal agreements just to get some of that information out there. I'd be glad to share that with you later this week or today. But I think schools are trying to be creative because of the advantage that interlocal offers

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being outside the lid. It's certainly something that's attractive to them. Now, of course, health insurance is another matter, and that's why we're very much supporting this bill.

SENATOR RAIKES: Okay. Senator Stuhr and then Senator Kopplin.

SENATOR STUHR: Yes, Mike, as far as the health insurance, what are some of the schools doing to try and be creative in this area?

MIKE DULANEY: Well, one thing, Senator Stuhr, that seems to be a trend...now, this is not necessarily what the employee likes, but it's a trend that's being discussed among school boards is the higher deductible. And, you know, at one time, the \$500 deductible was just a taboo subject, you didn't bring it up. Now, it's almost, you know, it's something that you have to do. And so now even the \$1,000 deductible is being looked at. Again, that's not necessarily what the employee would like to see, but the school boards are facing that pressure more and more. And so they're being creative in terms of looking at maybe there's just so much money that they put out there per employee and then it's up to them to find the benefits that work for them, the cafeteria-type system. So there is some creativity. The health savings plan is also being discussed out there. So those kind of things I think are what our EHA Board is discussing, but we want to move slow because there's a lot of uncharted territory there, and we're trying to do what's best for the employees.

SENATOR STUHR: Okay, thank you.

MIKE DULANEY: Um-hum.

SENATOR RAIKES: Senator Kopplin.

SENATOR KOPPLIN: On the double-digit increase in premiums, this has been going on for a long, long time. But in the current year, are there improvements to the coverage, the benefit that go along with that increase?

MIKE DULANEY: And Senator Kopplin, you know that what happens many times is that you give up certain things. You

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give up certain benefits in order to reduce that overall increase in the premium. We're fighting against that every way we can. In fact, what we're trying to do is asking Blue Cross to take less of a profit, basically. We're asking them to reduce their administrative charge to us in order for us to keep that cost low, so we're trying everything under the sun to keep that low, and but we don't believe that giving up important benefits is the way to go. This next year we're looking at trying to maintain a healthy reserve because what's happening is that we're having to dip into that reserve more and more just to keep afloat, and so what we want to do is build up that reserve for future years in order to sustain the system.

SENATOR KOPPLIN: But benefits really haven't increased. It's just the...

MIKE DULANEY: We don't believe we decreasing the benefits. Now what happens, you know, is the co-pay, for example, we may have to go up in co-pay and that sort of thing in order to deal with it. But as far as what drugs are available under the plan, we do not take those away. We try to keep that even.

SENATOR RAIKES: Okay. Thank you, Mike.

MIKE DULANEY: Thank you.

SENATOR RAIKES: Other proponents?

DOUG NABB: Senator Raikes and Education Committee, my name is Doug Nabb. I'm a lobbyist for the Fremont Public Schools. That being said, I would tell you that we do have an interlocal in regard to energy costs, but one of the major headlines in the newspaper was department utilities 30 percent increase this year. And there are a lot of schools that do not have the ability to interlocal in that regard. And I guess I'm kind of taking their cause a little bit to heart because it is something that we need to pay attention to, particularly when you take a look at the fact that 70 to 80 percent of our costs are in wages, and we only have discretionary spending of that 10 to 20 percent, somewhere in that neighborhood, 25 percent tops, so that's the problem that the schools are dealing with. Along the line with the double-digit inflation on the health

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insurance, of course, Senator Kopplin you asked as far as the benefits. I would tend to say that they've held their own at best and actually probably gone backwards just a little bit to be very honest with you. By the way, I forgot, N-a-b-b, Doug. Sorry about that. Any questions?

SENATOR RAIKES: Thank you, Doug. I don't see any. Thanks a lot.

DOUG NABB: Thank you.

SENATOR RAIKES: Any other proponents, LB 890? Are there opponents? Is there neutral testimony? Senator Janssen has waived closing so that will close our hearing on LB 890 and we'll move to LB 1006 and Senator Bourne.

LB 1006

SENATOR BOURNE: Good afternoon, Senator Raikes, members of the Education Committee. My name is Pat Bourne, I'm from the 8th Legislative District in Omaha, here today to introduce LB 1006. My introduction will be very brief, as there are testifiers following me who can go into more detail about this bill's provisions. LB 1006, which I introduced at the request of the governor, is intended to provide property tax relief. I can say without hesitation that high property taxes have been one of the top concerns of my constituency during my eight years here in the Legislature. Under LB 1006, the property tax relief that is scheduled to occur in fiscal years '08, '09 is accelerated. The property tax levy limit for public schools has dropped from the current \$1.05 to \$1.025 in fiscal year '06-07. The levy limit then drops to \$1 in fiscal year '07-08. The bill maintains the elimination of the temporary school aid adjustment factor in fiscal year '08-09. An additional \$26.7 million in state aid to schools would be required for the first year, and an estimated \$147 million would be needed in the following years when the levy decreases to a dollar. In order for the additional state aid to be paid to schools, the bill would require that the Nebraska Department of Education recertify no later than May 15, 2006, for that fiscal year only. The decrease in the levy limit was scheduled to take place, but we are in a situation to do this now and bring tax relief to our citizens sooner

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LB 1006

rather than later. I urge your favorable consideration of LB 1006.

SENATOR RAIKES: Thank you, Senator Bourne. Questions? The current statute calls for okay, let me put it this way. This would change current statute by bringing half of the drop, 2.5-cent drop, two years ahead of time, and the full 5-cent drop one year ahead of time.

SENATOR BOURNE: Yes.

SENATOR RAIKES: Okay. The total cost to the state is \$174 million or roughly over the three years involved.

SENATOR BOURNE: Well, let's see, the sheet that I have, I'll distribute it. It's the state aid will provide 26.7 million in '06-07; 56.8 million in '07 and '08, and 90 million in '08-09.

SENATOR RAIKES: Okay. All right, any other questions for Senator Bourne? I assume you're going to stick around.

SENATOR BOURNE: I'll stick around.

SENATOR RAIKES: Okay. Proponents for LB 1006? Madam Commissioner or administrator, what?

CATHERINE LANG: That would be correct. Thank you.

SENATOR RAIKES: Okay.

CATHERINE LANG: (Exhibit 3) Good afternoon, Chairman Raikes and members of the Education Committee. I'm Catherine Lang, L-a-n-g, the state property tax administrator. I'd like to take this opportunity to thank Senator Bourne for introducing this legislation on behalf of the governor. The bill before you today lowers the property tax rate limit from its current \$1.05 to \$1 in a series of steps beginning in this tax year. And when I say tax year, I'm referring to property tax year. It also lowers the local effort rate and the state aid formula from 95 cents to 92.5 cents and then to 90 cents. The lowering of the local effort rate will increase state aid to schools. The fiscal note suggests an approximate \$27 million in additional state aid dollars this year. Both steps can reduce and offset the use of property

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taxes to fund schools. The amount to which they offset property taxes depends on the choices made by local districts. It is difficult to predict with any certainty what property taxes increase will look like in future years. But for your background, property taxes have, over the past three years, increased, just this last year, 6.66 percent; from '03 to '04, 4.95 percent; and from '02 to '03, 9.13 percent. Now, that's the total property taxes. My testimony today also has some detailed information on the same increase to the school property taxes, and that's all property taxes for schools including bonds. My staff has analyzed the changes in rates in the use of levy authority under the levy limits over the past three years. Examining this bill's targets of \$1.025 in '06 and \$1 in '07, we reviewed the 2005 tax year's use of levy authority under the current \$1.05. For 2005, our analysis suggests that 60 percent of the school systems in Nebraska are over \$1.025 in levy and 80 percent are over \$1. So, for example, over \$1.025 is 62 percent of the districts, 59 percent of the students, and 58 percent of the statewide valuation base. Over \$1 in the '05 year, 73 percent of the districts, 81 percent of the students, and 80 percent of the statewide valuation base. I thank you for the opportunity to testify and I'd be happy to answer any questions. I also have a copy of my testimony for the committee.

SENATOR RAIKES: Okay, thank you. Senator Kopplin's got a question for you.

CATHERINE LANG: Yes, sir.

SENATOR KOPPLIN: Yes. As I look at this drop of 2.5 cents for the coming year, perhaps my math is wrong, but if I have \$150,000 house value, 2.5 cent drop will amount to \$37.50 a year. That's two lottery tickets and a cup of coffee a month. Do you think people really are going to see this as property tax relief?

CATHERINE LANG: Well, that's a great question. I am privileged to have the opportunity to speak to organizations across the state and one of the topics I'm always asked to speak on is property taxes, property tax relief. And the first question I would ask anyone is well, in your opinion, what is property tax relief? I think controlling the rate of growth may mean property tax relief to a large number of

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persons in our state. And certainly, this would go to doing just that. It would curb the rate of growth. I think for some people property tax relief means going down every year, and that's another conversation for another day.

SENATOR RAIKES: So, was that a yes?

CATHERINE LANG: (Laughter) No, I don't think that was a yes.

SENATOR RAIKES: Well, I'll continue on the same line. Another concern that's expressed to me is that if you drop the operating levy lid,...

CATHERINE LANG: Um-hum.

SENATOR RAIKES: ...then particularly school districts that find themselves in need concerning buildings will find this as an opportunity to pass a bond issue so that the net property tax relief may not be there at all.

CATHERINE LANG: And that's an issue that we have examined over the last numbers of years as we have compressed the ability to access the property tax directly. What has happened in terms of school finance in terms of using these other opportunities such as bonds, and we have certainly seen a shift and a change and a focus on using bonds, not only by school districts, but other subdivisions as well as we limit their ability to directly access for General Fund purposes the property tax, so that is true.

SENATOR RAIKES: And the message to the taxpayer is is that we can get a new building and your tax rate won't go up.

CATHERINE LANG: Yes, the headlines usually are the tax rate won't go up.

SENATOR RAIKES: Okay.

CATHERINE LANG: And I think also in fairness to Senator Kopplin's question is that the property tax amount collected is so large, that to have an impact on it takes a tremendous amount of state aid monies if it's just going to be an offset. And so, yes, \$37 doesn't sound like a lot, but when you multiply it times the total valuation base, you get an

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awfully large number at the state level.

SENATOR RAIKES: Senator Schrock.

SENATOR SCHROCK: I don't know if this is your question to answer or the Department of Education, but how many equalized districts do we have, or nonequalized districts do we have, and would this increase the number of nonequalized districts to put more into the equalized category?

CATHERINE LANG: That is a question that we would not have the answer to from our agency. We do look at that. It is of interest to us, but that piece of information I do not have.

SENATOR RAIKES: We've got Russ here, so we'll put him on that one. Any other questions? Thank you, Cathy.

CATHERINE LANG: Thank you.

SENATOR RAIKES: Other proponents?

DON BATIE: (Exhibit 4) Senator Raikes and members of the Education Committee, my name is Don Batie. That's B-a-t-i-e. I'm a farmer from Lexington and I serve as the second vice president of Nebraska Farm Bureau Federation. I am here today on behalf of Nebraska Farm Bureau in support of LB 1006. I'd first like to thank Governor Heineman for including property tax relief in his tax relief package and to Senator Bourne for introducing LB 1006. It should come as no surprise to the Education Committee that property taxes continue to frustrate agricultural landowners. An analysis performed for Nebraska Farm Bureau Federation by the NLB Planning and Policy Research showed property taxes paid per average farm in Nebraska were \$7,535 in 2002, significantly higher than any of our neighboring states. The same analysis estimated taxes per average farm in Kansas was \$3,153. In Colorado, they were \$1,895, and in Iowa, \$6,237. LB 1006, while not putting us on an even playing field, will help reduce the discrepancies with our neighboring states. Property taxes paid to support schools are especially a thorn to farmers and ranchers. Farmers do not benefit any more than the rest of society from providing children with an education, yet in many systems they shoulder the greater share of the taxes. More of our

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children in rural communities receive an education and subsequently leave for children or move elsewhere for their employment. Thus, while agricultural landowners bear the educational costs, oftentimes the educational benefits are enjoyed elsewhere. A few years ago, the Legislature set out a policy to reduce property taxes and set the dollar levy as an appropriate levy for schools. We certainly appreciated the Legislature's efforts, and the dollar levy became the benchmark for progress in reducing property taxes. We recognize that financing the state's budget and schools has, and continues to be, a struggle. We were willing to share the pain and accept the increase in levies on a temporary basis to help make ends meet, even though we believed relaxing the limits was a step backwards in reducing property taxes. That picture has now changed. The economic picture is brighter and state revenues have improved. The tie has come again to take a step forward in reducing property tax burdens. LB 1006 provides a step in the right direction. Our only question is if it does truly enough to address property tax burden faced by agriculture in Nebraska. We certainly would like to see more property tax relief, and to that end, we will be appearing before the Revenue Committee later this week in support of other means of providing additional property tax relief. Nebraska Farm Bureau supports LB 1006 because it again sets the state on the policy course to provide property tax relief. Thank you for the opportunity to provide our comments, and I would be happy to answer any questions you might have.

SENATOR RAIKES: Thank you, Don. Questions for Don? Let me ask you this. It may well be or one of the possible trade-offs here is to do a reduction in the levy lid a little sooner than it otherwise would be called for by state statute, or to address the state aid formula and particularly the financing it provides to school districts in areas with declining enrollments. I'm told at least by some that leads to sort of a constant number of override requests and that sort of thing. What would the Farm Bureau's position be? Which direction should we go on that? Should we try to revise the aid formula so that we address the need for overrides in some of these sparsely populated areas, or should we simply leave all that as it is and lower the levy lid?

DON BATIE: The best answer would be both, of course. Farm

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Bureau is also supportive of reduction of property taxes. And we know there's a variety of methods to reduce property taxes, and I guess we'd have to sit down and evaluate how it best fits. I'm not qualified at this time to make that judgment, but I think the biggest thing is that we look forward to a reduction in taxes. That's our single biggest expense that we can't modify or adjust on our farms.

SENATOR RAIKES: Okay. Senator Schrock.

SENATOR SCHROCK: Just a comment. I always ran on the platform with lower property taxes, so I suppose, from that standpoint, Farm Bureau can consider me being a failure so.

DON BATIE: (Laugh) Well, Senator Schrock, we know you've tried.

SENATOR RAIKES: He didn't argue with you (laughter).

DON BATIE: I've known Senator Schrock a long time.

SENATOR SCHROCK: I was his senator for two years.

DON BATIE: That's right.

SENATOR RAIKES: Senator Stuhr.

SENATOR STUHR: I'm looking at the previous testimony from Ms. Lang, saying that 62 percent of the districts already have a levy over \$1.025. And 73 percent would have it over a dollar, and my concern is that there are an awfully lot of small districts out there that have voted to raise their levy much beyond \$1.05 or even \$1.10 so, you know, I'm certainly in support of property tax relief and there may be some other issues that we might, you know, have to be looking at. And if you have any other suggestions, we know we appreciate those.

DON BATIE: Well, we do have other agendas, I guess you might say. And that's what some of the bill were in to testify with later on this week. I know one of them is to reduce the valuation of ag land from 80 percent valuation to 70 for tax purposes is one of the things we're looking at too. But I think at this point in time, there's a whole host of things we need to look at, and this is one element

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of it.

SENATOR RAIKES: Thank you, Don, appreciate it. Other proponents, LB 1006?

BRIAN HALE: Brian Hale again from the Nebraska Association of School Boards. At this time I'll spell my first name, B-r-i-a-n, more often misspelled. As a general principle, I think school boards across the state believe lower property taxes are a good idea since school boards generally get the direct heat for the rate of property taxes. It does provide some opportunities for communities to do other things like bond issues when necessary. Our major concern is that it's in a long-term consideration for you is how sustainable is a dollar? We've been in a decade and a half of limiting levies. We've been at \$1.10; we've been at a \$1, then \$1.05. I guess we'd like to encourage us to adopt a rate that's sustainable and so that we don't necessarily have a variable rate levy limitation. But certainly, as the general concept of lower property taxes, we agree that that would be a positive thing. The question always is just how low can we afford and how are we willing to pay for that? So, with that, I think answering some of the questions about overrides and bond issues, we do track that information statewide. For the most part, the bond issues statewide have been much more agreeable for voters, sixty to...about two-thirds even of the school bond issues have passed over the last few years. Override elections not quite as favorable in larger communities, but rural communities that seem to be battling for their existence are much more accepting of those. But, again, even in those, there are 10 or 12 override attempts per year with the success rate being about the two-thirds rate, so that's our experience in those additional areas of property tax assessment. So, with that, we support the notion, the philosophy of lower property taxes, but do ask you to consider that we'd like to, at some point, have a fixed rate to what the levy is because changing from state aid to property taxes is not always a dollar for dollar proposition, depending on whether your district is a high need state aid district or one that barely qualifies, so with that, I'll close my testimony.

SENATOR RAIKES: Okay. Thank you, Brian. I would describe you as a cautious proponent.

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BRIAN HALE: That's very accurate.

SENATOR RAIKES: Okay. Senator Kopplin.

SENATOR KOPPLIN: Would it be fair to say as the levy lids drop, schools are more apt to drop their building fund levy to keep up?

BRIAN HALE: Drop their building fund levy? It depend...obviously, it's case by case, depending on the quality of the facilities they're trying to maintain or update. I think, in general, that as there's opportunity, state aid money comes in and they have opportunity to do certain things, maybe within the course of the General Fund, they aren't as likely to have to turn to the building fund.

SENATOR RAIKES: Any other questions? You mentioned you keep track of overrides. Is there any particular size of school system or size range that tends to be more frequently about the task of asking for an override?

BRIAN HALE: I would say, yes, they are generally smaller districts that are looking to maintain, as I say, programs and perhaps keep their program consistent with the requirements of the Department of Education. They, I think quite regularly, I would say smaller districts are more likely to be using that. Larger districts have tried it and not been very successful, frankly, so they've been forced into other avenues.

SENATOR RAIKES: Okay, although you do have systems as large as Westside certainly.

BRIAN HALE: Westside would be the one exception of the larger districts that have been successful, but Omaha and Lincoln have not been successful, with overrides and the other sort of mid-sized districts have had more trouble. But Westside, from the very beginning, they were the first district to pass an override election. Interestingly enough, in the first five years of their override, they didn't utilize any of their override authority. But they went back then and as things shifted for them, got another override authority from their voters. I don't know the status of how they've utilized that, but override gives them the authority to use the tax. They don't necessarily have

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to use everything they've been authorized to go for.

SENATOR RAIKES: Okay, thank you, Brian. Other proponents? Michael.

MICHAEL KELSEY: Senator Raikes and members of the Education Committee, my name is Michael Kelsey. I'm the executive vice president of the Nebraska Cattlemen. My name is spelled M-i-c-h-a-e-l K-e-l-s-e-y, here in support of LB 1006. I will keep my testimony very brief as you've heard, reasons why we support it as well and we agree with some of the previous testifiers. We would like for the record, though, to put in some numbers just very briefly on the tax burden and, of course, as a cattleman when you join, you raise your right hand and heretofore ever after advocate against lower property taxes. But, nonetheless, if you look at on a per acre basis, when you compare and you've heard some of this data previous, but in Nebraska we pay \$8 an acre on property tax. Our neighboring states, Colorado is \$1.90; South Dakota is \$3.90; and Wyoming is 28 cents an acre in terms of property tax. So it's very difficult to compare, at least in an apples to apples sense Nebraska to our neighboring states. On a cow basis and some of you have heard this data before, but in the state of Colorado in a similar sense, you would pay \$9 per cow in just property tax in the state of Nebraska. In a similar range situation, you could pay up to \$50 and sometimes even \$54 per cow and just in property taxes. So, certainly we view property taxes as being somewhat burdensome in this state as compared to others. With that, I'll conclude my testimony and be happy to try to provide answers to questions.

SENATOR RAIKES: Thank you, Michael. I see no questions. Thanks for being here.

MICHAEL KELSEY: Yeah.

HERB SCHIMEK: Mr. Chairman, members of the committee, my name is Herb Schimek, S-c-h-i-m-e-k, speaking in favor of LB 1006. The only problem we have is we want to make sure that the bill is sustainable in the future. We've had the ups and downs over the last decade, and we would hope that that would not happen. We are basically in favor of lower property taxes. We joined with the Farm Bureau in the past on petition campaigns to try to lower property taxes. We

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have our own reasons, but we are in favor, basically, of lower property taxes.

SENATOR RAIKES: Okay, thank you, Herb. Questions? Thanks.

HERB SCHIMEK: Thank you.

SENATOR RAIKES: Any other proponents, LB 1006? How about opponents? Neutral? Russell.

RUSS INBODY: Good afternoon, Senator, members of the committee, I'm Russ Inbody, R-u-s-s I-n-b-o-d-y, with the Nebraska Department of Education. And to respond to Senator Schrock's question, there are currently 46 systems out of 257 that are not equalized. And that's the same number that weren't equalized last year, only there were three more systems. And this bill obviously may increase that number. The other thing...

SENATOR RAIKES: Increase the number of?

RUSS INBODY: Or decrease the number, excuse me, decrease the number of nonequalized districts and increase the equalized districts. It also would...it may also increase that lop-off number as school districts get more aid, you know, with the calculation that they don't get it too quickly so that they get into the levy penalty. It may increase that lop-off provision too.

SENATOR RAIKES: How many districts are now lopped off?

RUSS INBODY: I don't know. I can find out, but I can't remember (laugh).

SENATOR RAIKES: I thought maybe you had that on top of your head. Okay, thanks, Russ. Any questions? Senator Stuhr has got one.

SENATOR STUHR: Yes. Are those nonequalized districts, where are they mostly in the state? Or I mean, are they just dispersed in the western?

RUSS INBODY: They're in Nebraska, Senator (laughter).

SENATOR STUHR: In the western part of the state?

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RUSS INBODY: Well, no, not necessarily because Westside is nonequalized. Hartington is not equalized in the northeast part of the state. I would have to...we could do an analysis of that for you, if you'd like to know. I mean, what we'll do is we'll just do a list of the systems and send it over to the committee.

SENATOR STUHR: Okay, that would be great.

RUSS INBODY: So that you can have that information.

SENATOR STUHR: Thanks.

SENATOR RAIKES: Thank you.

RUSS INBODY: You're welcome.

SENATOR RAIKES: Thanks, Russ. Any other neutral testimony? Senator Bourne waives closing, so that will close the hearing on LB 1006. And we'll move to LB 803, Senator Kopplin.

LB 803

SENATOR KOPPLIN: (Exhibit 5) Senator Raikes, members of the committee, my name is Gail, G-a-i-l Kopplin, K-o-p-p-l-i-n. I am the senator representing District 3. Thank you for this opportunity to present to you LB 803. LB 803 would change the reporting requirements of school districts regarding cost per pupil. Actual collection of data for school districts would not change at all. The reporting would simply add a line to the annual financial reports listing the cost per student based upon actual expenditures from the General Fund. During last year's LB 126 debates, the issues of cost per students were brought up many times. This past summer, accusations regarding per pupil expenditures were tossed about by both sides of the one city, one school district debates. The same arguments were brought into the Bellevue-Papillion discussions. Unfortunately, the data being used in most of these cases was never intended to be used that way. When per pupil costs are listed in the current annual financial reports, they are figured as adjusted costs meant to be the figure to

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be used by schools in determining the costs for contracting between school districts educating each others' students. These figures are determined by taking total General Fund expenditures, subtracting expenditures for certain capital constructions, subtracting certain tuition contracts, and subtracting federal funds. Then, adding back 3 percent of whatever the district determines the value its buildings and contents are, and then dividing that adjusted figure by the average daily membership. LB 803 would leave that data in place for those districts needing to use it, but it would add another figure that would simply be the total General Fund expenditures including federal funds divided by the average daily memberships. Most school per pupil costs would drop slightly. The state average would be about the same, but some districts would show a big increase in per pupil spending. Some will argue that federal funds must supplement and not supplant local funds and, therefore, should not be considered as expenditures relating to the costs of educating children. I believe that money spent to educate children should be reported as part of the costs regardless of the source. Unless one has experience in dealing with school finance, the annual financial reports are difficult to analyze. The General Fund is only one part of the costs of educating children. Money is expended from a variety of other accounts, including bond funds, building funds, depreciation funds, employee benefit funds, contingency funds, activities funds, school lunch funds, qualified capital purpose undertaking funds, cooperative funds, and student fees funds. Some of these funds are funded by property tax; some by transfers from the General Fund, and some by other local and state sources. These are reported as separate funds in the annual financial reports. One may ask, why a fund that is simply a transfer from the General Fund should be in question? Frankly, these funds all earn interest that is kept in the fund and never reported back to the General Fund and is never seen as a resource in calculating state aid. A number of years ago, a proposal by Coopers and Lybrand would have required school districts to report per pupil cost considering all these funds. It never gained popularity, although in their hearing last week, this proposal was referred to by Dr. Mackiel, I believe. LB 803 doesn't go that far. It simply requires all funds, federal funds primarily, to be reported as per pupil expenditures. Most schools will show a lower per pupil cost doing it this way. Those with

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federal funds of any significance will show a higher per pupil cost. I don't think this is a reflection on any school district. I don't think any of them are spending too much on education. Federal funds are an important tool to use in reaching some of the students who need a great deal of help, but I do believe the average citizen should be able to have accurate data to use in understanding school costs. So let's figure total expenditures for reporting per pupil costs. Current methods can still be used for calculating state aid or district to district contracts, but a better picture would be given of General Fund expenses. Thank you for this opportunity to present LB 803, and I will waive closing.

SENATOR RAIKES: Okay. Thank you, Senator. Questions for Senator Kopplin? Senator Stuhr's got one.

SENATOR STUHR: Yes, Senator Kopplin, actually what you're...mostly what you're adding then is the federal program...

SENATOR KOPPLIN: Primarily (laugh).

SENATOR STUHR: ...is...primarily. From that list of 15.

SENATOR KOPPLIN: Correct.

SENATOR STUHR: Okay, all right. Thank you.

SENATOR RAIKES: So, you keep trying but I'm going to nail you here. As you pointed out, if someone is receiving federal funds, this would up their expenditure and, as you say, the objective here is to give a better picture of comparative costs between districts?

SENATOR KOPPLIN: Yeah, it doesn't up their expenditures because they're already doing that.

SENATOR RAIKES: The report, yeah.

SENATOR KOPPLIN: It ups what they report.

SENATOR RAIKES: Would it be fair to use some sort of a weighting on the students? I mean, on the notion as we hypothesize, at least in the state aid formula, that it

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costs more to educate a student that is a poverty student or a student that is learning English language. Wouldn't those real cost differences be masked by doing this? For example, I'm a school district that educates a thousand students that I have no poverty students and no ELL students. You've got a school district that virtually all your students are either or both of those categories and my cost per student is, or my disbursement per student is less than yours. So, what do we conclude from that, that I'm more efficient than you are?

SENATOR KOPPLIN: Absolutely not. What we need to conclude from that is that we need to take a look at the state aid formula and increase what we're doing for poverty students, in addition to the federal funds.

SENATOR RAIKES: Okay. All right. Thank you, Senator. Do we have some proponents for LB 803? Welcome.

ANGELO PASSARELLI: Good afternoon, Senator Raikes, members of the committee. My name is Angelo Passarelli. That's P-a-s-s-a-r-e-l-l-i, represent the Millard Public Schools and we support Senator Kopplin on LB 803, and I think he outlined all those reasons. We're very...the discourse we've been going through the last several months has led us to believe that the public has a misunderstanding of how those funds, how many funds we have for all of the students. And we think this will go a long way for accurately reporting what those funds are and for the public to know how those funds are spent.

SENATOR RAIKES: Thank you, Angelo. Questions? Do you think...I'll repeat the same question to you I did with Senator. What about big differences in the number of demographic students?

ANGELO PASSARELLI: This is not to say that those funding levels aren't needed or necessary. I think all of us would agree in the Education Committee that those federal funds are targeted toward urban centers, poverty, ESL, as well they should be. We're just saying they should be disclosed as such. So I don't think we want to reduce. We just want to make sure that there's full and accurate disclosure on how those funds are used.

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SENATOR RAIKES: Okay. Don't see any other questions. Thanks for being here. Any other proponents, LB 803? Opponents, LB 803? Neutral testimony?

JOHN LINDSAY: (Exhibits 6, 7) Thank you, Senator Raikes, members of the committee. My name is John Lindsay, L-i-n-d-s-a-y, appearing as a registered lobbyist on behalf of Omaha Public Schools. And we're appearing in a neutral capacity because certainly there's language in LB 803 that we think might not give a full story, as Senator Raikes with some of his questioning was pointing out. But I think Senator Kopplin raises a valid concern, and that is the informing the public of how their dollars are being utilized. Senator Kopplin mentioned to you, made reference to Dr. Mackiel's reference last week about the Coopers and Lybrand study. I am passing out or I have asked a page to pass out to you the executive summary from the 1995 report that utilized the tool that Coopers and Lybrand developed. That data is old data. It's, as I mentioned, 1995 report. But it gives you an indication of what kind of reporting can be accomplished. Certainly, in today's computer age, some of the massaging of the data can be done to advise not only the school districts on how better to more efficiently run their districts where their resources are being allocated, but to you as policymakers. Having that data available would assist you in determining are our dollars being utilized properly, and what kind of impact are we having, for example, for poverty spending at a particular school compared with poverty spending at another school? If you go through that executive summary, you'll find that the data, if you have the proper reporting tool available, and a uniform reporting tool available, you can get quite a bit of information from that, and you can do a lot of, I think, more valid comparisons of how school districts are using their dollars. And we think all public schools believes that this would be a better approach to addressing the issue that Senator Kopplin has raised with respect to advising the public as far as how dollars are utilized. I've also asked to be distributed an amendment. We are not tied to the language of this amendment. This is just simply to get the issue out before you, out before the public. We are not touting a particular program, whether it's Coopers and Lybrand or another program, but rather, just trying to bring to your attention that there are financial tools out there that can give both you and to the various school boards

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throughout the state better data. We have included in this amendment an exclusion for some of the smaller districts. I see my time is up. I'd be happy to answer any questions.

SENATOR RAIKES: Yeah, what did you say about other districts?

JOHN LINDSAY: Other districts, it's just that we have an exclusion in there for the smaller districts if expenses is an issue on having that financial data. And, again, we're not tied to that, but that exclusion just says to schools with multiple secondary school sites, would use this type of reporting or schools with territory in the metro area where we've seen the battles of numbers and the various ads. So that's, again, as we say, we're not tied to that language, but we do want to bring the issue to your attention because we think there's an opportunity to resolve this for future.

SENATOR RAIKES: Okay. What are you using now in-house at OPS? Do you have a system in-house like you're proposing here?

JOHN LINDSAY: We don't. We had it for, as I understand it, we had it for three or four years in the mid-nineties. It was funded at that time, as I understand it, by a grant. It was...the whole concept was pushed by the, I believe, by the Chamber of Commerce and by maybe a major newspaper in the Omaha area that wanted more transparency in spending on schools. So, for awhile we did that. There was an additional expense to run dual programs, which were required by the state to run this tool as well. But since no one else was using that, having the additional expense of running parallel systems, it's my understanding that it was determined to cease using this system.

SENATOR RAIKES: Okay. Anything else? I don't see any. Thank you.

JOHN LINDSAY: Thank you.

SENATOR RAIKES: Any other neutral testimony? Okay. Senator Kopplin has waived closing, so we'll move now to LBs 1118 and 1138. Senator Heidemann, and we are going to hear these bills together, so the Senator is going to introduce both of them, and then we'll take testimony on

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both of them at that point. Senator, welcome.

LB 1118 1138

SENATOR HEIDEMANN: Good afternoon, Chairman Raikes and members of the Education Committee. I'm Senator Lavon Heidemann, and for the record, spelled H-e-i-d-e-m-a-n-n. I represent District 1 and am before you today to present information on LB 1118. LB 1118 would add another category of school systems to the sparse grouping in the state aid formula, TEEOSA, beginning in 2006-2007. The new criteria for sparse systems includes schools with an average daily membership of less than 250 students and evaluation of \$750,000 per student or less per student. Based upon the 2005-2006 certification of state aid, 31 school systems currently in the standard cost group could become sparse systems under this proposal. The cost for both the standard and sparse costing groups will be reduced. The formula need will increase for the sparse cost grouping and decrease for the standard cost grouping. Twenty-eight school systems will gain state aid and 185 systems will lose state aid. The estimated increase in state aid is 7.7 million for 28 of the 31 schools shifted to the sparse school grouping. The projected decrease in state aid for the 185 school systems in the standard cost group and currently in the sparse group is 8.9 million for a net decrease of 1.2 million in aid. The systems that would not qualify as sparse would benefit from the higher cost grouping. When we did this and I worked on this last fall, when I looked at a group of schools that I thought maybe needed some attention that they struggled a little bit more than normal, we came up with this criteria and this is one of the ways that we thought maybe we could help them. And I had people that helped me run these numbers, and we ran these numbers. One of the things that we never had any intention of doing is that it came up that it was going to save the state \$1.2 million. We had no intention of taking money out of the state aid pool that way. I believe if LB 1118 would go on, that that would probably want to be addressed because we don't want to take actually any money away from the state aid. If anything else, probably add. So that was one of the things that we learned that for every action that you do to a state aid formula, there's like ten reactions (laugh). So, that's all I have on LB 1118. Would you want me to take questions

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at this time or just go ahead?

SENATOR RAIKES: No, go ahead and...

SENATOR HEIDEMANN: (Exhibit 8) Okay. With that, I will close on LB 1118. And I'll now open on LB 1138. LB 1138 would give each district with a criteria of 250 ADM or less and \$750,000 valuation per ADM or less, \$2,000 of aid per ADM student. There was some confusion when we made this up, and that was on our part, and we didn't catch it till way at last. Because of this, we drafted an amendment to correct this problem. We caught this problem when the fiscal note came out and it was a lot larger than we had ever anticipated. When we looked at the wording, when we saw that you could interpret to read \$2,000 on top of current aid--it was never our intention to do that. It was to be taken to \$2,000 and capped at that point. The amendment will make it clear that it's only to be \$2,000 and not more. I have an amendment, and you'll see that with the amendment, the wording that we have changed. You are now getting an amendment that's going to tell you that. When we drew up the bill and ran the figures as to how much it would cost, we used '03 and '04 ADM and this is what we had available to us at the time, and we also used '04 valuation per ADM and that's what we had available to us at that time also. Our calculation of cost is \$3,607,055, which is considerably less than the \$20.7 million that the fiscal note has. I am confident of our numbers because the people helped me draw this up and run these figures. Keep in mind, when we did this, it was with '03-'04 ADM and '04 valuations and when they do it for this year, I'm sure the figure would be a little bit different, but, hopefully, not much and I couldn't tell you if it would be a little bit less or a little bit more. I understand that state aid to schools would cost \$15 million less than budget for this year. And I understand that figure will probably go up in the next biennium. And I, for one, would like to put this money back into education. And I'm sure there's a lot of ideas what the state is going to do with this \$15 million and more in the out years. But as someone who believes in education, I think we need to keep it where it's most needed. And I believe one of the best places to use some of this money is to fund LB 1138 and to help these schools that I have identified that need help. I want to close with this thought. We have a group of schools that struggle to

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survive, only surviving by levy overrides. If these same schools would be considered sparse, they would thrive and a lot of their financial troubles would be gone. To me, there's a thin line or criteria that gets you from barely surviving to thriving, and I believe that LB 1138 will create some middle ground for this group of schools. With that, I will close and take questions.

SENATOR RAIKES: Thank you, Senator. Questions? Senator Schrock's got one.

SENATOR SCHROCK: I have two schools that are seven miles apart. They're both under 250 students. Did we help them or should we expect them to work together and help themselves?

SENATOR HEIDEMANN: Am I allowed to ask a question?

SENATOR RAIKES: No (laughter). You got to be clever about it (laughter), you got to kind of work your way around.

SENATOR HEIDEMANN: If I was allowed to ask a question, my question would be (laughter)...

SENATOR RAIKES: That's a good way.

SENATOR HEIDEMANN: ...do you think that these schools are offering quality education? And as I went through this group and I looked at those schools that struggled and I realize that some people consider these schools of choices. But I really believe that...and I couldn't even tell you which schools are in this grouping. We didn't actually look at specific schools. We looked at a school grouping. And the other comment I would like to make and then I'll try to get to your question is that no one approached me to do this. I started running these figures on my own and I come to the conclusion that this is a group of schools that needed help. So, I guess I'll just stop with that. Should we help these schools? And then this is just my opinion and I would have to think that this isn't everybody's view, but in my opinion, if those schools feel that they are important enough to have made it this far, I think we should maybe not make them thrive, but I think we should help them out a little bit so that they wouldn't be just barely surviving. And I believe that if districts really see that there could

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be some merging and condensations (phonetic), well, that's not the word. If they could work together better, I would hope that they would do that, Senator. And I believe under the current system that we have, and this is, once again, my view, I believe that we make them struggle a little bit and I would think this would dress it, maybe not as full as they would like, but enough that they wouldn't struggle and always have to go to the levy overrides because I think it puts, at that time, an undue burden on the local property tax payer just to keep the school open. I hope that answers your question.

SENATOR RAIKES: Senator, you mentioned \$15 million, and I assume you're referring to what was budgeted for this current biennium versus what now appears to be the requirement.

SENATOR HEIDEMANN: That's what I understand, yes.

SENATOR RAIKES: Okay, okay. You have with the amendment, let me see if I understand. Suppose you had a district with 250 students and a valuation of less than \$750,000 and they were now receiving state aid of \$3,000 per student. Would...

SENATOR HEIDEMANN: Of at least. It's supposed to be of at least. We don't want to cut them at \$2,000. If I spoke that it would cap it at \$2,000 I spoke wrong. And, hopefully, our amendment is going to say, at least \$2,000 and above. If they are currently getting more than \$2,000, it's not our intention to cut them back to \$2,000. Our intention is to have each school district get at least \$2,000.

SENATOR RAIKES: Okay.

SENATOR HEIDEMANN: So if we worded our amendment wrong and we have to address that again, I guess that's what we'll have to do. We was under the understanding that we was okay.

SENATOR RAIKES: And I don't know that you have. The fiscal office interpreted it as okay, as \$2,000 beyond what they now get so if they had...

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SENATOR HEIDEMANN: So if they had \$2,000 they could get \$4,000, and that was never our intention. We...

SENATOR RAIKES: But in a way then, this wouldn't help some school districts...

SENATOR HEIDEMANN: No.

SENATOR RAIKES: ...in the category that you're talking about at all. If they happen to get \$2,200 or \$2,001, for that matter, now in state aid, then they wouldn't get any more.

SENATOR HEIDEMANN: When we was running this, it appeared that this group of schools, and some of them are getting more help than others, but there were some that weren't getting that much, that they had to rely on levy overrides to survive. And the reason that I stopped at the 750,000 is that if you had more valuation than that, not that I wouldn't like to help more school districts, but if you had more valuation than that, you could spread that levy override over more valuation, and it wouldn't be such a burden to a small group of valuation. And that's the reason that I stopped at the \$750,000 valuation or less.

SENATOR RAIKES: Okay, all right. Senator Stuhr.

SENATOR STUHR: Senator Heidemann, do you know how many districts that you are working with?

SENATOR HEIDEMANN: You know, we did more work on LB 1138 than we did on LB 1118, and it appeared that, according to this, there was 31 systems that was going to be changed from standard to sparse. I'm not for sure, and there might be somebody following me because, that would know more. I don't know if that follows through on LB 1138 or not. I got a feeling there's maybe some people when this was introduced that might have been running some figures and found out who was going to be involved in this and who was not. And, actually, that's not what I was after so I didn't look at that. I was looking more at the group instead of the schools. So, I couldn't answer that, but there might be some people following me that could.

SENATOR STUHR: All right, thank you.

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SENATOR RAIKES: Senator, let me ask you quickly about the LB 129 mechanism. That's in committee now, and you're familiar, I think, with that.

SENATOR HEIDEMANN: Yes.

SENATOR RAIKES: What about that approach to handling schools with enrollments in the 250-student range?

SENATOR HEIDEMANN: I thought that might come up (laugh). I am interested in LB 129 and I'm not going to deny that. And I realize that you think that that could help some of these schools in this grouping. And I very much, you know, like to look at that and be part of that if that's what's going to go forward. I am offering this this year, and I don't know how far LB 129 is going to get this year. And if we get time to it and I see that it's going to help these schools, you have to convince me yet that it will help them. I'll be there with you. But right now we decided to offer this LB 1138 as maybe a stop gap measure.

SENATOR RAIKES: Okay. All right, fair enough. Any other questions for Lavon? I don't see any. Are you going to stick around?

SENATOR HEIDEMANN: I might stick around a little bit. There's a lot of excitement across the hall here and I'm involved in that, so I might go a little bit but, and if I'm not here we'll just...

SENATOR RAIKES: Say hello to my friends from Ashland, will you?

SENATOR HEIDEMANN: (Laugh) I will do that. Thank you very much.

SENATOR RAIKES: Thank you. Proponents for either LB 1118 or LB 1138?

MILFORD SMITH: Senator Raikes and members of the Education Committee, I'm Milford Smith, M-i-l-f-o-r-d S-m-i-t-h. I'm representing the Nebraska Coalition for Educational Equity and Adequacy on both these bills. I'm speaking in support. We didn't have anything to do with these bills, but we

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appreciate Senator Heidemann introducing them. Nebraska has derived substantial benefits from its decision in the past to maintain small school systems. National studies have indicated the state commitment to small schools has worked well and to help close the achievement gap between more and less affluent communities. We think that small schools in Nebraska are doing a fairly good job. Small schools should be an important part of the Nebraska strategy to improve student achievement where it is weak and sustain it where it is strong. Smallness should be recognized as an educational value and intentionally supported by the state financial system and it should be encouraged and funded. Not just where it is necessary due to population awareness because smallness ought to be recognized and valued as an essential part of an educational, part of an excellent educational system. Senator Schrock asked earlier, should schools consolidate if they're only seven miles apart? I come from a district that has now in its consolidated district four towns, seven telephone exchanges, seven zip codes, stretches approximately 36 miles along the Kansas border, it's in parts of three different counties, and we are still hurting on supporting educational financially within our communities, and we've had two override elections. This bill will not impact us, but I'm speaking for it because it will help some of them. Schools in Nebraska that have combined systems and communities that have formed new districts to attempt to keep small schools do a good job. Those same schools now face additional financial pressure and the list of hyphenated school districts and new name school districts that had override elections to raise additional property tax is growing. I urge this committee and this legislative body to address the actual resources needed of all the schools in our state and advance this bill and support it out of hearing. Thank you.

SENATOR RAIKES: Thank you, Milford. Questions?

MILFORD SMITH: (Exhibit 9) I have some information I will pass out to you about Nebraska small schools, how poverty and size of a school system is affected by school performance.

SENATOR RAIKES: Okay.

MILFORD SMITH: Thank you. Questions?

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SENATOR RAIKES: Yeah. I take it you support this mechanism, not the one in LB 129?

MILFORD SMITH: There are parts of LB 129 that we would support, but where you place a number of 390 schools as being too small, we would not support it.

SENATOR RAIKES: Okay. It actually...

MILFORD SMITH: Unless you have changed your provision, Senator, of schools below 390 would lose a portion of their state aid.

SENATOR RAIKES: Yeah, of the needs, yeah.

MILFORD SMITH: Yeah.

SENATOR RAIKES: No, that's right, um-hum. Okay.

MILFORD SMITH: But there are parts of your bill that we would support.

SENATOR RAIKES: Okay. Senator Schrock.

SENATOR SCHROCK: What's the right number if 390 isn't the right number?

MILFORD SMITH: Well, I've answered this question once before with you, Senator, for 390, if I understand it, is 15 students times two grades or two sections of students times 13 is where the 390 figure comes in, 15 to 1 student ratio being the optimum size to educate children. I would be more likely to support it if it were half of the 390. Now, the question comes up, is 15 to 1 something that ought to be achieved in all schools? I've been asked that by our larger school districts and I would say yes. If it's good for small schools, it should be good for large schools too. Nationally, it supported that that's an optimum size, somewhere to 15 to 1 to 15 to 20 in a high school class to educate children.

SENATOR RAIKES: Okay, any other questions? I see none. Thank you, Milford. Next proponent. Welcome.

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CURTIS COGSWELL: Good afternoon, Senator Raikes and committee members. My name is Curtis Cogswell. That's C-o-g-s-w-e-l-l. And I come as a proponent of LB 1138 and, interesting enough, it might not impact my district as we continue to grow, which we're excited about. But I do see the inequity in some larger and richer districts to some smaller districts like mine. It's interesting, Senator Kopplin said, you know, the cost per pupil, you know, to look at that. When I first came back from Texas to be an administrator at Nebraska, even when I visited with Governor Johanns, the number that kept coming up was cost per pupil. And in York County, which Senator Stuhr represents, we're the smallest school district in York County, but our cost per pupil is also the least in York County. And our valuation is also the smallest in York County. For instance, we spent last year, according to the Nebraska Department of Education, our expenditures were \$8,115. The richest district or land wealthy district in our county actually spent close to \$12,000 per pupil. I think there's an inequity there when we look at having to fund our school. We basically are educating 240 students with about \$100 million worth of valuation. We are one of the ones in a tax levy override. Our current tax levy is \$1.26 and I know it's not fair. I'm a farm boy; I married a farm girl. My parents and father-in-law, they still farm. I understand the burden of it. When Senator Schrock said, what is the right number of a school district? There is none. I think the right size of a school district is for the people to decide what the right size is. We came back from a district where I was an administrator with schools of 30,000 students. I didn't want to raise my sons in that big of a school district. I wanted to bring them back to the farm communities of Nebraska. The struggles that we face, though, is that we continue to look at trying to find bills to support like, Senator Raikes, if we could find ones that compare our districts to other small districts where we could have a funding formula. But what I see is when we talk about inefficiencies, I'm not seeing it when I look at our district and what we're expending per pupil. I see efficiency, and the most thing I see in efficiency is this. Our graduation rate in the four years I've been there, a hundred percent compared to 88 percent in the state rate. And then when we look at poverty students, we are above the state average of poverty. We are above the state average in special education, but we continue to have success and of

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our hundred percent graduation, 90 percent of them are going on to postsecondary education. I see my time is up.

SENATOR RAIKES: Okay, thank you, Curtis. Questions of Curtis? I don't see any. Thanks for being here.

CURTIS COGSWELL: Thank you.

SENATOR RAIKES: Next proponent.

PAUL SAATHOFF: Hello, Senator Raikes, Education Committee, thank you for letting me speak with you today on being a proponent of LBs 1118 and 1138. I think it's very important that...

SENATOR RAIKES: Give us your name and.

PAUL SAATHOFF: Oh, excuse me. I'm nervous, I apologize. My name is Paul Saathoff, S-a-a-t-h-o-f-f. Okay, I apologize.

SENATOR RAIKES: Paul, you bet.

PAUL SAATHOFF: What I want to say on this bill is that I think that it is important because I think it fills a crack that is in the school financing system. The formula that is used now particularly is hard on these size schools and with this amount of valuation. And I think this goes into filling that need. Generally, these schools in this size are forced more than any other school, any other size, any other place, with pushing levy overrides. And, yes, I understand the concept of the levy override and everything like that, but it tends to shift higher property taxes to those districts and especially seems like it discriminates against any taxpayer in those districts. That often creates a lot of conflict between neighbors, people in the same district, and people in neighboring districts. If someone else has a neighboring district that gets a lot more state aid, is down to...does not need a levy override, the next district needs one, there's a lot of animosity there. I do think that this size district is very important to Nebraska. Number one, I think it keeps the revitalization of rural America alive and rural Nebraska, and that's something that I think is important to everyone in the state of Nebraska. With that, I'll close.

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SENATOR RAIKES: Okay, thank you, Paul. Senator Kopplin's got a question for you.

SENATOR KOPPLIN: Oh, the levy override in your community. Last time it didn't pass, is that correct?

PAUL SAATHOFF: That's correct, in November.

SENATOR KOPPLIN: Is that coming up again?

PAUL SAATHOFF: We're going to go have a levy override election March 7.

SENATOR KOPPLIN: Okay. If this bill were in place, how much would it take to your community to avoid that levy override? Do you have any idea?

PAUL SAATHOFF: I just saw the numbers not that long ago, but I think this would come close enough that with maybe a few cuts, that we wouldn't need the levy override. Quite frankly, the amount of state aid in these size schools sometimes is...a lot of times is less than half of what the state average is. And that's about where my district is, is we get half of what the state average is. And \$2,000 would not bring us up to state average but would be a lot more than we're getting now.

SENATOR KOPPLIN: Okay, thank you.

SENATOR RAIKES: Okay. I don't see any other questions. Thanks for being here, Paul.

PAUL SAATHOFF: Thank you, everyone.

SENATOR RAIKES: Other proponents?

GRANT FISHER: Senator Raikes, members of the Education Committee, thank you for allowing me the opportunity to testify today. First of all, Grant Fisher, F-i-s-h-e-r. I serve the McCool Junction school district and also am a parent of two students within that district. I would like to thank Senator Heidemann basically for recognizing the importance of the small school districts and for looking into a, I guess, a measure that might alleviate some of the

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hardship that was created for those districts that were not in the sparse classification when LB 806 and LB 1114 went into effect in the nineties. Those two pieces of legislation were extremely hard on districts such as the district that I serve in. By their nature, they cut state aid at a time when the ability to levy was also being restricted. And it did create a hardship for districts such as those. Our district, at one point, several years ago, received not \$2,000 per pupil, but rather \$2,000, just slightly over \$2,000 in state aid to serve about 140 students at that time. And I think everyone on the committee here would agree that that's not a real strong effort being put forth by the state because the ideal behind LB 806 and LB 1114 was we'll reduce property taxes, which we've heard testimony on earlier bills is a very favorable thing amongst, you know, owners of property both ag and commercial, but that the state then would come back and supply the districts with the necessary funding to continue their education and serve their students. In regards to Senator Schrock's comment or question, I should say, you know, would you support the two districts because they are so close in proximity? I think the first thing you'd say is, I would certainly think as a parent I would want the state to support my children in their education. Decisions that need to be made about whether there's, you know, a need to move in a different direction for those districts should never be put in place where those students are going to be hurt by the decisions that are made. And I just want to applaud, you know, Senator Heidemann for introducing this measure, opening up the discussion. Senator Raikes, I've not had an opportunity to look at LB 129, but we certainly would be interested in any provisions that do recognize differences in district sizes and the possibility that funding for all districts, you know, could be maybe a little more equalized.

SENATOR RAIKES: Okay, thank you, Grant. Questions?
Senator Stuhr's got a question, Grant.

SENATOR STUHR: I just have a comment. I just want to congratulate you, what you've been doing in your community as far as trying to bring, you know, people (inaudible)...

GRANT FISHER: It's, you know, it's a wonderful community and I would like to invite any of the members of the

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Education Committee to come and see...when I speak about the hardships that were created, it's interesting. Because of those hardships, our community has thrived. People have really stepped up. And there's been a lot of personal sacrifice, both financial and in time and commitment. But it truly has brought out the best of our educational system and the best of our communities. Sometimes through adversity, we do rise to higher levels, and our community is certainly an example of that. And we would invite anyone to come and visit our school district because we're very proud of it, as you might well imagine.

SENATOR RAIKES: So you're advocating financial adversity (laughter)...

GRANT FISHER: No (laugh). Senator Raikes, I am not advocating financial strife (laughter). Strike that from my comments, please.

SENATOR RAIKES: You...and I don't know if this is accurate, but I've got some information here about total disbursements per student in the systems in York County, and you're actually the lowest, not by a tremendous amount, but by some. So, if you had more money, what do you need it for? Are you not able to...?

GRANT FISHER: Senator Raikes, we had through the times of hardship, had really cut everything that was possible to cut. At one point, with a lower number of students because as Mr. Cogswell did allude to, our growth has been phenomenal and we've appreciated that a great deal. But, at one point, we were at a point where decisions were made to combine two elementary classes and it worked. It was okay. They were small enough at that time. Now we have concerns that are quite the opposition. There's an elementary class that's got 26 students. Are we going to have to consider splitting and hiring additional staff? And we're at a position where we're trying to, as financially we're able to, we're trying to hire back staff to better serve our students, offer more electives. Those are issues that I know that this committee cannot set there and look at course offerings and what's available at all different schools per pupil. But those are issues that we have to deal with locally is how to best serve our students. And as we've grown, we've needed to add staffing, to offer more, you

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know, for 250 students you certainly want to have more available than for 140 students and it's necessary to have additional electives. I'll be honest as well, this is an issue aside, but our building is nicely full now and we would like to be able to, which I said as aside from a state aid issue, but to expand on some building projects as well, so our concerns of where to spend additional funding would not be difficult (laugh) to address.

SENATOR RAIKES: So, even with a levy of \$1.26,...

GRANT FISHER: Yes.

SENATOR RAIKES: ...you are spending less per student than...

GRANT FISHER: As Mr. Cogswell alluded to, our valuation of just about \$100 million, I think we've hit the \$100 million. That doesn't provide us much revenues in levying even \$1.26. You know, when you do the math, it doesn't provide you a huge budget and that, of course, doesn't consider federal funding. But that has...even with the \$1.26 levy, has forced us to be very frugal in our spending within our district.

SENATOR RAIKES: Okay. Thank you.

GRANT FISHER: Um-hum, thank you for the opportunity to present.

SENATOR RAIKES: Any other proponents?

MATT BLOMSTEDT: Good afternoon, I'm Matt Blomstedt. That's spelled B-l-o-m-s-t-e-d-t, and I'm the executive director of Nebraska Rural Community Schools Association, which we affectionately refer to as NRCSA. I'm not sure that's very good phonetics. However, (laugh) I'm here to testify basically in favor of the notion of changing the needs calculation. And I appreciate Senator Heidemann's, at least attempt, and I think he saw some of the problems we've run into any time we try to adjust the needs cal...

SENATOR RAIKES: Basically in favor of the notion, okay? (Laughter).

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MATT BLOMSTEDT: Yeah. Well, I'm to be specific (laugh). I mean, the idea of moving forward with some type of needs reform is necessary, especially for small schools with declining enrollment. I think you begin to look across the state and look at the differences in what's being offered in, you know, a school that happens to be in the very sparse cost grouping or a sparse cost grouping and begin to look at standard cost grouping schools. And I think we're beginning to develop some type of issue there. I mean, obviously, some of the intention of a standard cost grouping was to be able to suggest that schools ought to be operating at an equalized level with other school districts and offering something fairly similar as other school districts in each cost grouping. And I think because of the size difference in the standard cost grouping from the very smallest schools all the way up to the very largest of schools in the state, you end up comparing a school that tends to be on maybe even the average size school for the state, which tends, I want to say I guess there's 286,000, it's about a thousand students. Well, we don't have very many thousand-student schools in rural Nebraska. And so we do tend to have schools that are, you know 200, 300, 400, and I think we're beginning to witness schools that are even at the 600, 700, and 800 experience problems due to declining enrollment. So finding some way to approach that, certainly we're very supportive of LB 129 and elements within that to change...to get us to a standard cost grouping set. I have very few concerns with the local choice adjustment as it's in LB 129 because we believe a comparison to 390 students is much more appropriate than a comparison to a thousand student type of enrollment average, anyway. So, as I begin to look at it, again, I just wanted to demonstrate appreciation to Senator Heidemann in trying to address this issue, and we look forward to working with both him and the Education Committee on some type of solution to school finance for small schools.

SENATOR RAIKES: Okay. Thank you, Matt. Senator Stuhr's got a question.

SENATOR STUHR: Yes, Matt. You've been doing lots of work, I know, in this whole school issue. We hear a lot of talk about 390 being a little bit high. Do you have a figure that might be a little better?

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MATT BLOMSTEDT: There's two reasons that I...one reason is if you look at schools. I mean, I don't think 390 is Draconian underneath 129. In fact, you actually find 390...schools of 390 on a per pupil basis don't tend to be as efficient as a school of say, 280 or 300, somewhere around this range at least for a couple of the data years that I looked at. So, actually, that compares, you know, 390 isn't necessarily bad at all. You know, if that needs to drop for other reasons to 300, I mean, or, you know, if you think that's necessary or you believe that's necessary for a philosophical reason, that's probably okay. But I think generally, I don't think 390 is a bad point of comparison so, and, again, this is not killing schools of less than 390. I think that's been sent around as, you know, something, you know, a rallying point, if you want to call it that. But it really is actually a benefit to schools of less than 390. My analysis, I mean McCool Junction, actually for them it'd be a benefit, I think, of close to about \$200,000 even though they might qualify for the local choice adjustment so.

SENATOR STUHR: Okay. Thank you for your comments.

SENATOR RAIKES: Okay. Matt, I'm looking at LB 1138 and the mechanism in there, and I don't know if you've had a chance to look at this carefully. But it seems to me that there's a danger here that this goes the wrong way in terms of equalization. For example...

MATT BLOMSTEDT: Yeah, there would be a...I think what you would end up doing is without changing or recognizing some justifiable need in calculation difference, you would just simply be giving, you know, money or guaranteeing that amount of money. And I don't think that would be something specifically that we'd be very supportive of. I mean, I want to make sure that needs calculation is accurate and fair, and then if that happens to result in \$2,000 or whatever amount of money in aid, then that would be appropriate so. But I think you're right, that it would take us away from equalization.

SENATOR RAIKES: Okay, all right, thanks again, Matt.

MATT BLOMSTEDT: You're welcome.

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SENATOR RAIKES: Any other proponents? Anyone of how did you say that, Matt, basically opposed to the notion of? (Laughter) Any opponents? Any neutral testimony? Senator Heidemann, you've survived this far (laughter). Do you wish to close?

SENATOR HEIDEMANN: Just a couple of quick comments. The first on LB 1138, and I believe the person was from McCool Junction, and you asked what they would want to do with that additional income that they would get. And the thing that I got that they was at \$1.26 on the levy. Have you ever heard of property tax relief? (Laughter) Okay (laugh). The other thing that just has amazed me to no end today is we talked a little bit about LB 1118 and how it would take the schools from standard to sparse and in doing that, it was going to shift the state aid, some money in the state aid pool. And I expected all kinds of schools here (laugh) to testify that they wasn't going to be happy that they was going to lose state aid. And I didn't see that, and I'm totally amazed so maybe these larger school systems aren't so opposed to helping these smaller school systems out because we sure didn't hear that from them today. And I kind of expected that and that has somewhat amazed me. So, with that, I'll close. Thank you very much.

SENATOR RAIKES: Okay. Questions for the senator? I think actually it's possible that you would take money in that arrangement from some smaller schools too, particularly if they happened to have valuations of more than \$750,000.

SENATOR HEIDEMANN: \$750,000. I understand that.

SENATOR RAIKES: Yeah.

SENATOR HEIDEMANN: I did expect some opposition to LB 1118.

SENATOR RAIKES: Well,...

SENATOR HEIDEMANN: Maybe they figured there wasn't a lot of chance but (laugh).

SENATOR RAIKES: The day is young. The day is young, you may still get it.

SENATOR HEIDEMANN: Thank you.

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SENATOR RAIKES: Okay, thank you very much. All right, that will close the hearing on LBs 1118 and 1138. And we will move now to LB 961. Senator Louden, and he's here. Welcome, Senator.

LB 961

SENATOR LOUDEN: (Exhibit 10) Thank you. Good afternoon, Senator Raikes and members of the Education Committee. My name is LeRoy Louden and I represent the 49th Legislative District, and that's spelled L-e-R-o-y L-o-u-d-e-n. And I'm here to introduce LB 961. I introduce this bill because I'm concerned about the amount of funds used to support noninstructional education costs. We all agree that public funds should be used carefully, especially when those funds are limited. I don't have to tell anyone here that state aid to schools use a significant portion of the state's budget. If we can target state aid to instructional costs, we should do so as required by the Constitution. With that in mind, LB 961 would remove certain costs from the definition of General Fund of expenditures under the Tax Equality and Education Opportunities Act. Those costs are the ones associated with executive and administration services and general administration business services. I disagree that these costs should be considered instructional costs. These costs have little effect on the quality of instruction students receive. In fact, teacher pay increases, improved learning materials, and technological updates have a greater impact on instruction and is where funds should be concentrated. I think that it can be argued that increased salaries for beginning teachers and those teachers who have not received tenure would be a positive impact on instructional quality. School districts across the state use different methods for administrative work of the district. Some districts use business managers; some districts hire accountants, and some districts assign the superintendent and board these duties. The number of staff devoted to these duties varies across the districts. At the present time, all these expenses are used in the state aid formula. They are counted as expenditures and therefore increase needs, which may qualify a district for more aid. There's no equality across the state. Some districts use higher expenses for administration to increase their state

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aid formula but others do not. By removing these from the General Fund of expenditures, all districts are treated the same. The fiscal note for the bill indicates that state equalization aid would be reduced by about \$142 million. As you know, in 2004 and 2005, total state aid amount is \$634 million so LB 961 would decrease state spending in this area, and the dollars gained might be used to increase teacher salaries. One hundred forty-two million dollars is a significant sum of state money spent every year and there are no guidelines on how or where the money is to be spent. As I pointed out, each and every district has a different meaning for administration costs. Other than the superintendent of a school system, the administrative staff are usually local people hired to do tasks that don't ordinarily require specialized education to perform. In other words, many times a school system is used as an economic development driver. As a system in place now works, the state of Nebraska picks up the tab, but does not have any guidelines on how the state aid money in the area is spent. I'm not suggesting that the money not be spent, but rather that it be redirected to instructional costs. Districts might choose to put more money into teacher salaries, which are part of the needs calculation. This would mean that state aid was truly going to pay for instructional costs. And I'd be happy to answer any questions.

SENATOR RAIKES: Thank you, Senator. Questions? Senator Schrock.

SENATOR SCHROCK: Is this out of your concern for high salaries for superintendents or?

SENATOR LOUDEN: Well, it's out of...Senator Schrock, it's out of my concern that there are districts that have a very high cost of administration when other districts do not. Some districts hire business managers and some don't. Some of them will have another \$60,000 for a business manager and some districts have their own superintendent do that type of deal. That would be my cost. I think the idea was to redirect some of our state aid. We only have about so much revenue, and should we be spending it more on instruction than we are in administration?

SENATOR SCHROCK: I would think the districts that had high

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administrative costs would want to take a look and see what they're doing wrong. But I don't know.

SENATOR LOUDEN: Right. You want me to answer it?

SENATOR SCHROCK: If you want to.

SENATOR LOUDEN: Oh, okay. By changing it like that, the administrative costs could actually be put into someplace where the school boards and also the voters of an area would have more control over it. It wouldn't affect the instruction of the students by whether they cut it down or something like that. The voters could decide what they wanted for the type of administration they wanted to operate their schools.

SENATOR RAIKES: Let me follow, see if I can understand with you how this would work. We're going to take all administrative salaries out of General Fund expenditures. So then the General Fund expenditure amount that's used to drive needs, the needs calculation in the aid formula would be reduced.

SENATOR LOUDEN: Right, they'd be out of the needs...

SENATOR RAIKES: So, the cost group cost per student is reduced by roughly one-fourth. So if you're a school district out there and your needs for state aid purposes are being calculated, then all of a sudden three-fourths of what they are...they're reduced by 25 percent.

SENATOR LOUDEN: Now, would they be...when you say you take administration that it wouldn't lower the cost of...it wouldn't lower the per pupil cost. The per pupil cost would still be the same because the same amount of money is being spent for the school. It would just be that they couldn't use administration as part of their needs to require state aid.

SENATOR RAIKES: Well, I must not understand how you're doing it then or how you have in mind because as the way I understand, what you're suggesting is that you simply reduce the needs calculation by 25 percent roughly.

SENATOR LOUDEN: 22.

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SENATOR RAIKES: Yeah, 22 percent and so when you do that, the cost group cost per student, for example, for a standard cost group student is \$7,000 or whatever it is. That would go down by 22 percent. So if you're a school district, say at Waverly, all of a sudden with the number of students, you've got 22 percent less funds to work with. So you can...

SENATOR LOUDEN: On your instructional side, but there would be more state funds that they could apply for. If they raise their teacher salaries or something like that, their needs would increase.

SENATOR RAIKES: Two years down the road, but they got to get the money someplace to raise the teacher salaries.

SENATOR LOUDEN: Right and that would come to your state aid formula. I guess it'd be redirecting what you spend for your administration into the instructional side of your needs program or your needs formula.

SENATOR RAIKES: Yeah, well, and this is where I'm apparently off base on my interpretation, because the way I see it, you would simply reduce the money available to a school system by 25 percent, 22. And then they can decide whether they want to fire all the administrators or how they want to deal with that or fire part of the teachers or whatever.

SENATOR LOUDEN: They wouldn't had to have fired part of the teachers. There would be more state aid money, as I said, to go into the other side of the formula. Yeah, it would do away with your needs, but you would not do away with the cost of the operation of the school. It'd be up to the school board to decide how much they wanted to spend on administration costs.

SENATOR RAIKES: Okay. Let me ask you this in a different direction. Do you have the feeling that the administrative function, superintendents, principals, assistant principals, counselors. Counselors, would they also go the way of the...?

SENATOR LOUDEN: I don't know if counselors would be, but

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principals wouldn't be. I think principals are still in here. Is that what you said, principals?

SENATOR RAIKES: Yeah, so principals would remain. Just the superintendent would go?

SENATOR LOUDEN: I think superintendents and some of their staff and...

SENATOR RAIKES: So, for example, somebody to answer the phone when a parent calls to find out if school is open today or something like that. They would be gone?

SENATOR LOUDEN: They wouldn't be gone. They'd just be paid for out of the district's fund.

SENATOR RAIKES: Okay.

SENATOR LOUDEN: They just wouldn't be...the state wouldn't be picking up the tabs for them, I guess.

SENATOR RAIKES: Okay.

SENATOR LOUDEN: One...

SENATOR RAIKES: Senator McDonald.

SENATOR McDONALD: In your estimation, who sets a superintendent's salary?

SENATOR LOUDEN: I think school board as far as I know because the superintendent is the only one there that doesn't have tenure or anything like that. He's contracted and usually hired at the discretion of the school board, right?

SENATOR McDONALD: I asked you, but yes. So the school board makes the decision of how much they're going to pay your superintendent, their superintendent and your bill is saying that whatever they decide to pay for the superintendent, they have to find other funds not calculated out in the needs.

SENATOR LOUDEN: Right.

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SENATOR McDONALD: Okay, and that's the gist of your bill.

SENATOR LOUDEN: Um-hum.

SENATOR McDONALD: Okay. So you think superintendents are getting paid too much? Their boards are giving them too much pay?

SENATOR LOUDEN: I think that it isn't equalized across the state in Nebraska. In my district, I have some school districts that have...they'll have business managers. Some of them don't, but yet they're all considered part of the needs when it's turned in to the state. There's no guidelines from the state on what should be spent for administrative costs or how many staff you have. You can have 150 students and you can have 12 or 15 people on administrative staff or you could have some of these schools that probably have 500 students and still not have hardly any more staff than some of the smaller schools. Are there any guidelines? There are no guidelines as far as I know on how state money should be spent for administrative services.

SENATOR McDONALD: So a school that has 20,000 kids versus a school that has 200 kids, the responsibility is a lot different.

SENATOR LOUDEN: True and they probably have more staff and they probably get more state aid, and that shouldn't affect them...this bill doesn't affect them on how you do it. It just changes the needs formula. Now, if you remember here a year or so ago, there was a superintendent someplace I think that got a buy-out, you know, and there's a lot of superintendents that retire and get some buy-outs and that sort of thing. And, as far as I know, they've never told me any different, but that is considered part of the needs you can set aside, and that comes out of your cost of instruction and your cost of operating the school, so that is part of your needs. And the state has no guidelines on how to spend that money or where it goes for. You know, have some your other and your instruction, there's certainly guidelines on what you can teach and what you have to teach. But as far as cost administration, you can have as many people as you want to. And that's the reason I mentioned, there are districts around that that really is somewhat of the economic driver of an area is what they spend for your

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staff and your school system.

SENATOR RAIKES: Senator Bourne.

SENATOR BOURNE: Senator Louden, when you were looking, doing the research for your bill, did you compare our number of administrators here in Nebraska relative to other states? I've heard other legislators say that we're kind of administration heavy in Nebraska, and did you do any research on that?

SENATOR LOUDEN: Yeah. We've looked around and what started was Texas down there. You know, they passed a...the judge decided they had to spend at least 65 percent of the money in the classroom. And for the most part, the average straight through for the most part, Nebraska runs about that average. Now, whether it's good or bad, but that's what the judge decided down there. What we could never find out was how much money this involved in Nebraska, and so by introducing this bill, I didn't find out till we got the fiscal analysis here the last day or so that they called it a 142 million bucks. I didn't suppose it would amount to nearly that much but it did so when you stop and figure 634 million or whatever it is and you do 22 percent, why you come out about \$142 million, but that's about what it's costing for the administrative part in Nebraska. Now, there'll be other parts in there that deal in Texas. I don't know if they had, if where maintenance was brought in on that and transportation and that. That's something else in there.

SENATOR BOURNE: But you didn't...I mean, a number of administrators, when you were talking about overall costs but, and you seem to think we're comparable. But the reason I'm asking this is Senator Tyson years past compared Nebraska to Utah. And he said there was one teacher for every 240...or one administrator for every 240 teachers in Utah and he compared that to Nebraska. It was like one for every 45. And I never knew if that was true. I just wondered if you had done any research and was...

SENATOR LOUDEN: We didn't go with that angle and strictly on the dollars and cents and cost per pupil and whether there or not there were any guidelines in any of these states on how this money should be spent.

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SENATOR BOURNE: Thank you.

SENATOR LOUDEN: That was more my concern when they started this was we were putting out a lot of money and we were wondering, nobody seems to know for sure where it goes and if it's getting to the student. Is it getting to the teachers or where is it going? And this is where we started, working down from this cost of administration.

SENATOR BOURNE: Thank you.

SENATOR RAIKES: Okay, Senator Stuhr.

SENATOR STUHR: Senator Louden, as I understand then, actually school aid would be reduced by \$142 million so, I mean, I'm wondering how would those schools function without that \$142 million to cover those administrative costs?

SENATOR LOUDEN: Well, I suppose one thing, when there would be a lot of, there would probably be some business managers that wouldn't have a job anymore would be my first guess for a short answer. They would...sure, that would probably have to come back on property tax. But, on the other hand, there's that much money in the state that could be used back into the instructional side of it. So they could still retrieve part of that money. They would have to, no doubt, cut back on their administration costs. That's all there is to it. The school board would have to get a handle on how they operate their school system. I was on the school board for years, you know how this works. We'd get on there and finally we're hiring everybody to do our accounting, we're doing everything. At one time, we did a lot of that ourselves on school boards, so there's places in there. I have known school boards that they do absolutely nothing. An accountant someplace does all the bookkeeping, does everything and makes everything out. They come once a month and go aye and nay and send the bills and that's it. Now, does it have to be that way? Doesn't matter because right now, when the state aid formula came in, you could use those as part of your needs. That goes into part of your cost of operation and all. And there was...the formula has been around for what, 20, 25 years, something like that, came in back in the seventies or late seventies, early eighties, whenever it was. And there never was any conservatism built

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in to state aid. This was probably the first attempt at any type of conservatism that I've seen come along. They've always wanted more money but nobody has ever figured out how they were going to spend it or who was going to get it, who was going to receive it.

SENATOR STUHR: Okay, thank you.

SENATOR RAIKES: Any other questions? I don't see any. Thank you, Senator. You going to stick around?

SENATOR LOUDEN: Oh, I think so. We'll hear what goes on.

SENATOR RAIKES: All right, good enough. Move to proponents for LB 961? Any proponents? Opponents, LB 961?

MIKE DULANEY: Senator Raikes, members of the Education Committee, my name is Mike Dulaney, D-u-l-a-n-e-y, and I am representing the Nebraska Council of School Administrators. This is going to come as a complete shock, but we're opposed to this bill (laughter) and...

SENATOR RAIKES: Really?

MIKE DULANEY: This being so close to Valentine's Day, we know there's love in that bill somewhere (laughter), but we have not found it. But, so I have nothing to add except that we're opposed to the bill.

SENATOR RAIKES: Okay. That's a fairly complete statement, I guess (laugh). Any questions for Mike? Do you know how we rank in terms of administrative costs per student or administrative personnel per student as compared to, pick your standard...other states, what it ought to be or anything like that?

MIKE DULANEY: I do not, but I think I know where I can get that information for you, Senator. I'd be glad to share that with you.

SENATOR RAIKES: All right, I'd appreciate that. Okay. Thank you.

MIKE DULANEY: Thank you.

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SENATOR RAIKES: Any other opponents, LB 961? Neutral testimony? Senator Louden?

SENATOR LOUDEN: Yeah, I'll give it one more shot (laughter).

SENATOR RAIKES: Okay. After that stinging criticism, you're going to come right back and go after them. All right (laughter).

SENATOR LOUDEN: Yeah, I listened to some of your (laugh), some of the opponents of it and, of course, I'm sure the administrators have...it was no surprise that they would oppose this. I'm wondering, did any of the administrators tell any of the teachers today that this bill was going to be up so they could probably perhaps get a raise in wages in a few years? That was never brought up. And one other question, when you have your administrators come in to testify sometime, one thing I would like to have you do is ask them if they were going to send in vouchers for their trip for their meals and their fuel and stuff today when they get back to their school district? Thank you.

SENATOR RAIKES: All right, we'll put that on the list. Okay, any questions for Senator Louden? I see none. Thank you, LeRoy.

SENATOR LOUDEN: Thank you.

SENATOR RAIKES: That will close our hearing on LB 961 and close the hearings for this afternoon. Thank you for being here.